

January 13, 2022

Senator von Imhof, Chair
Legislative Budget and Audit Committee
State Capitol #504
Juneau, AK 99801-1182

Sent Via Email Only

Chair von Imhof,

I am writing on behalf of the Alaska Permanent Fund Corporation's (APFC or Corporation) Board of Trustees (Board) in response to the Legislative Budget & Audit (LB&A) Committee's invitation to testify regarding the Board's action to seek a new Executive Director and affirm fulfillment of our fiduciary duty to the Alaska Permanent Fund (Fund) for the benefit of all Alaskans. As Chair of the Board of Trustees, I accept LB&A's invitation to provide testimony during the Committee's January 17, 2022 meeting. As we pointed out in the letter provided to you yesterday, we are still working on compiling and reviewing the remaining records you requested in your letter dated December 27, 2021.

First and foremost, I can assure the LB&A Committee, Alaskans, and our global stakeholders that the Alaska Permanent Fund is being managed and invested by the skilled and capable staff of the APFC under the leadership of Acting Executive Director Valerie Mertz and Chief Investment Officer Marcus Frampton. Ms. Mertz is a consummate professional who has served more than 18 years with the APFC and has led the Corporation through a past Executive Director transition. Mr. Frampton's role overseeing the APFC's investment portfolio is unaltered by personnel changes in the Executive Director position.

The performance of the Fund results from the dedication and vision of skilled professionals working together to bring forth desired outcomes that meet the needs of Alaskans today and into the future. The enduring stewardship and safeguarding of this important Alaskan financial resource is based on the APFC's commitment to ensuring that investment of the Fund is conducted in accordance with constitutional provisions, statutory mandates, governance structures and the Board's set investment objectives.

Second, it is helpful to review the legal framework governing the Alaska Permanent Fund Corporation. The Corporation's responsibilities are stated clearly in Alaska law and include the responsibility to manage and invest the assets of the permanent fund and other funds designated by law.¹ The Corporation is managed by the Board of Trustees. The Board is comprised of six members appointed by the governor: two members must be commissioners of state government and one of those two must be the commissioner of revenue; the other four members are appointed from the public and are required to have recognized competence and wide experience in

¹ The relevant statutory authority for this and the following principles and obligations is found at AS 37.13.040, .050, and .100.

finance, investments, or other business management related fields. The Board may employ and determine the salary of an Executive Director. The Executive Director position is in the exempt service and is not subject to legislative confirmation. As with other high-level public and private sector executive positions, the Executive Director of the APFC serves in an at-will position and is not subject to collective bargaining agreement or similar contractual provisions restricting terminations of employment for cause only.

Accordingly, the Board is responsible for the overall management of the Fund and other assets managed by the Corporation. As is the case with any corporation in the United States, a board of directors (in this case, the Board of Trustees) must at times make difficult decisions regarding the day-to-day management of the Corporation, and those decisions may include a decision to remove an executive and move forward with new leadership in that position. Those decisions can be controversial. Individuals may agree or disagree with a particular decision, and a board itself may not have a unanimous consensus. Nevertheless, the responsibility of the Board is to make those difficult decisions in furtherance of its mission and responsibilities under the law. This is what the APFC Board of Trustees has done. The Board made a difficult decision to make a change in the management of the Corporation and to seek a new Executive Director. That decision was driven by the Trustees' assessment of what would be the best course going forward to most effectively support the more than \$84 billion financial investment portfolio and those charged with the investment and management of this Fund.

Finally, in response to your request, we provide the following information.

Personnel Procedures and Removal of the Executive Director

Alaska State Statutes, the APFC Board of Trustees Charters and Governance Policies (Governance Manual), govern the Corporation to ensure sound guidance and process in the management of the Fund. The APFC Governance Manual includes the standing Board policy that relates to the role and responsibility of the Executive Director and the process the Board uses in conducting an annual review of the performance of the Executive Director. A copy of the Governance Manual has been included with this letter for your convenience.

Specifically, the Governance Manual requires the Board to "establish a process for the evaluation of the performance of the Executive Director" and to "conduct such performance evaluation annually." (See APFC Governance Manual, page 1).

Further, the Charter of the Governance Committee of the Board requires the Committee to "ensure that the Board undertakes an evaluation of the performance of the Executive Director annually" and to "supervise and coordinate the process by which the evaluation is conducted, including developing and recommending to the Board an evaluation survey, meeting with the Executive Director to discuss the evaluation results, and preparing an evaluation report." (See APFC Governance Manual, page 8).

Under these requirements, the Governance Manual contains an Executive Director Performance Evaluation Policy. (See APFC Governance Manual, page 32). This policy outlines the following steps to ensure appropriate and valuable feedback to the Board on an annual basis:

- Establishing a survey to provide Trustees with a tool for evaluating Executive Director performance based on set criteria;
- Working with the Executive Director to agree on the survey and criteria;

- Distribution of materials to each Trustee to include the Executive Director's self-assessment, strategic plan and budget reports, and the evaluation survey;
- Tabulation and summary of survey results to be presented to the Board through the Governance Committee along with the completed surveys;
- Preparation of an evaluation report by the Governance Committee to include the self-assessment and the summary of the evaluation results;
- Meeting of the full Board in executive session to review and discuss the results of the evaluation;
- Sign-off of the report by the Chair, Vice-Chair and Executive Director; and
- Approval of the final evaluation report by the Board and placement in the personnel file.

Throughout employment at the APFC, including the most recent period of 2021, Ms. Rodell received annual performance evaluations per the Governance Manual. During the review process from 2016-2019, the performance evaluation focused on the Board's direct evaluation of Ms. Rodell and in 2020 based on the APFC's leadership initiative, a 360° review was conducted to incorporate relevant feedback from not only the Board but also from Ms. Rodell's direct reports and a random sample of staff selected by an external consultant that was hired to help the Board in this process. In 2021, the 360° review was expanded to provide corporate-wide feedback on Ms. Rodell.

Ms. Rodell's performance evaluations indicate, and as you might expect with any employee, areas where the Board believed there was room for improvement by Ms. Rodell. Throughout the years, discussions with Ms. Rodell around these points were held in executive session. The Alaska Open Meetings Act provides that state agencies can meet in executive session for several purposes, including discussing employee personnel matters. AS 44.62.310(c)(2).

Some facts relating to the Executive Director's separation of employment nonetheless are public pursuant to requests made by the press and this Committee under a different law, the Public Records Act. Ms. Rodell's performance reviews fall into this category of disclosable information. Those reviews illuminate some of the Board's long-standing concerns regarding Ms. Rodell's continued role as Executive Director.

Throughout the year, the APFC utilizes employee surveys as an efficient and effective means of receiving staff input and feedback on elements that are important to the overall health and strategic direction of the Corporation. The information gathered during these surveys is anonymous and used to assess current performance and policies and inform future ones. In 2021, these surveys included both internal and third-party surveys. Internal surveys include the communications strategy, the work-remote policy, the Employee Net Promoter Score (eNPS), and a third-party survey administered through the Best Places to Work Group on behalf of Pensions & Investments. While the official announcement of the APFC winning Pensions & Investments Best Places to work was embargoed until 12/13/2021, the Board of Trustees was confidentially informed of the award as part of the Executive Director review process.

The process around Ms. Rodell's most recent performance evaluation began in the fall of 2021. As outlined above, the Chair of the Governance Committee developed a survey that was distributed to all staff and the Board of Trustees. The 360° survey was anonymous, and the APFC staff were encouraged to provide relevant feedback and corporate-wide perspectives on the Executive Director's performance. It contained quantitative scoring on several metrics and an opportunity to comment on each area. The Governance Committee Chair summarized the survey results and distributed them to the Board and Ms. Rodell in advance of the December quarterly meeting.

Ms. Rodell was given the opportunity to discuss the survey results with the Governance Committee Chair prior to the December board meeting. She declined. Other input to the Board's evaluation of Ms. Rodell's performance included her self-evaluation for the year and response to the summary of the 360° survey results.

During the December 2021 quarterly meeting, the Board held two executive sessions to review and discuss Ms. Rodell's performance. The session on December 8 included five of the Trustees. No staff or other persons were present. The second session was held on December 9. All Trustees were present in person or by phone, and no other individuals were present for the discussion. Following the Trustee discussion, Ms. Rodell was asked to join the executive session. When the conversation with Ms. Rodell concluded and she left the room, Chris Poag, General Counsel and Valerie Mertz, Chief Financial Officer, were asked to join the executive session. After the executive session ended, the vote to terminate Ms. Rodell was conducted on the record. The Board voted 5-1 in favor of seeking a new Executive Director. Some staff were present for the vote, as was the meeting recorder.

The decision to seek a new Executive Director was not based on political or other outside considerations. Each Trustee is a fiduciary of the Alaska Permanent Fund and makes all decisions based solely on the Trustee's informed view as to what is in the Fund's best interests. The decision to seek a new Executive Director was not a unanimous nor an easy decision. Nor was it determined in advance of completing her performance review. However, her termination was the result of preexisting concerns raised in prior performance reviews.

As noted above, the APFC Executive Director (like any high-level corporate executive) is an 'at-will' employee who serves at the pleasure of the Board of Trustees. Accordingly, the Board may terminate the employment relationship of the Executive Director at any time, with or without cause or specified notice periods. However, it is important to recognize that, in the Board's view, it had given Ms. Rodell the opportunity to address concerns about her leadership in prior years. Ultimately, the Board must make difficult decisions regarding how it determines the Corporation should be managed, including difficult personnel decisions. In this case, the Board made the decision that it was best to terminate Ms. Rodell's employment and seek new leadership in the Executive Director position.

As a further matter of procedure, we note that all the APFC employees are 'at-will' employees, the only difference being that the APFC staff report to the Executive Director and the Executive Director reports to the Board of Trustees. To provide guidance and direction for the APFC staff who serve at the discretion of the Executive Director, the APFC has adopted and follows a Personnel Management Plan (PMP). A copy of this has been provided with this letter for your convenience. The PMP handbook allows for the consideration of the need for the immediate departure of an employee following separation. (PMP page 30). Each separation is different and the Board decided to make Ms. Rodell's separation effective immediately. The Board's decision to make Ms. Rodell's separation effective immediately, however, did not reflect any concern that she would respond inappropriately to her dismissal.

Next Steps

To ensure that the recruitment of a new Executive Director is successful, the Board's first step in this process is a review of various large investment fund governance structures that are in place across pensions, endowments and sovereign wealth funds. This assessment will determine if peers' governance structures would benefit the APFC and provide information to support the targeted

recruitment of an individual with the skill set needed to serve the APFC and the Fund into the future.

Following this governance structure review, the Board expects to follow the same process that it has utilized for past Executive Director recruitments. This process includes working with staff to contract with an Executive Search Firm to conduct the search. The firm will be selected through the State Procurement Code and will be tasked with narrowing the applicant pool to only highly qualified individuals that meet the agreed-upon requirements. Staff and a member of the Board will then conduct preliminary interviews with the applicant pool to narrow the candidate list down to three or four of the best candidates for the full Board to interview. Board interviews will take place in an open public meeting. Deliberations will be in executive session (consistent with the Open Meetings Act to protect the reputation of those being discussed), followed by a vote on the record.

Functional Board oversight and productive managerial relations are best for the Alaska Permanent Fund and best for the outcomes that Alaskans expect of this institution. Taking the Corporation into the future includes acting and collaborating on the Board's long-term strategic vision. While the new leader needs to be a good fit culturally with the organization, it is essential that the Board's and the Executive Director's engagement is rooted in mutual respect, ongoing productivity and trust.

Benchmarking

Investment decisions are primarily the responsibility of individual investment officers, portfolio managers, and the Chief Investment Officer. Investment decisions at the APFC fall under several categories: (a) Rebalancing decisions or moving funds between asset classes are made by the Chief Investment Officer, (b) Individual security selection in public market portfolios are made by portfolio managers assigned to each account under the supervision of Investment Directors, and ultimately the Chief Investment Officer, (c) selection and due diligence of individual private market investments (funds and direct investments) are conducted by private markets investment officers and ultimately approved by the Investment Department Investment Committee chaired by the Chief Investment Officer, and (d) public market manager hiring and termination decisions are similarly conducted by relevant investment officers and approved by the Investment Department Investment Committee.

As fiduciaries of the Permanent Fund, the APFC Board of Trustees adopts an investment policy that includes benchmarks to provide a balanced approach to evaluating asset class performance. The Fund's current asset allocation includes public equities, fixed-income, private equity, real estate, infrastructure, private credit, absolute return, risk parity strategies, and cash that are managed to outperform specific long-term targets. This investment strategy targets performance returns in excess of inflation (Consumer Price Index or CPI) plus 5% on a long-term basis. To generate returns that efficiently reward risk and maintain a focus on achieving best-in-class overall performance, the APFC investment portfolios are consistently monitored and evaluated relative to passive indices, peers and the Board's target objective (i.e., CPI plus 5%).

Performance is related to the work and synergy of all pulling together at APFC to pursue its Corporate vision to *deliver outstanding returns for the benefit of all current and future generations of Alaskans*. For the quarter ending September 30, 2021, the Permanent Fund outperformed the Performance Benchmark, the CPI+5% return target, and the Passive Benchmark. In reviewing the Permanent Fund's cumulative returns over longer time horizons of 1, 3, 5, and 10 years, the Fund

outperformed and was ahead of all three of these benchmarks, including the performance index, the passive index, and the Boards target of 5% real return (i.e., CPI plus 5%).

With performance reporting transparency for our Alaskan stakeholders, the APFC publishes monthly financial statements and a comprehensive annual report that highlights the assets, liabilities, and values of the Permanent Fund and details regarding the income and expenses of the Fund. Additionally, the Board of Trustees holds four quarterly meetings to review and assess the performance of the Fund, including presentations from staff, investment advisors, general consultants and external managers. Members of the Legislature are notified via email of the Board of Trustees meetings and provided links to access the Board meeting packets, which include quarterly performance data, financial information, and Callan's reporting on performance, asset allocation, and capital markets forecasts.

Thank you for the opportunity to provide information on APFC's governance and process. We look forward to a productive hearing.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig Richards". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Craig Richards, Chair
Board of Trustees
Alaska Permanent Fund Corporation

Attachments:
APFC Governance Manual
APFC Personnel Management Plan - PMP